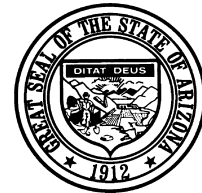


# ARIZONA TAX NEWS



Jane Dee Hull, Governor

Mark W Killian, Director

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## E-Mail Your Questions

If you have a question that you cannot find the answer to, our Technical Assistance personnel may prove useful to you. We will gladly respond to any e-mail technical tax inquiry. All inquiries will be responded to within two working days.

E-mail your question to:  
[TaxpayerAssistance@revenue.state.az.us](mailto:TaxpayerAssistance@revenue.state.az.us)

In the interest of maintaining confidentiality, DOR cannot respond to inquiries that include a Social Security number, FEIN, TPT or W/H number, or other specific taxpayer identifiers.

## The Latest from BRITS

The Business Reengineering/Integrated Tax System (BR/ITS) project is proceeding smoothly as the vendors finish up the "as-is" phase of their solutions. There are three companies working in-house with Department employees. All of them have successfully implemented integrated tax systems in both the United States and abroad. Each has looked in great detail at the current state of affairs at DOR and is analyzing what they have found. For the last 2 months there have been over 200 meetings and focus groups used by the vendors. They have also been given paper and electronic files that detail the operation of the department and all of the data that

is collected and uses in the normal course of business. The meetings are winding down and the vendors are migrating from a gathering mode to an analysis mode. During the final few months of the discovery phase, our vendors will be developing "to-be" scenarios to see if they will fit with the requirements outlined in the Request for Proposal (RFP) issued in March. The RFP requires the vendors to use their experience with other taxing agencies to identify best practices that can be implemented in Arizona. The result will be increased efficiency and improved service, making DOR a world class organization. All of the proposals need be completed by December 14, 2001. A contract is expected to be awarded next spring.

## DOR Introduces Interactive CD Education

Recognizing the importance of education and outreach as important tools for voluntary compliance, the Department has been developing a CD that will assist new businesses in understanding their tax requirements and providing assistance with filling out some of the forms. The interactive CD will be used to augment the Department's classroom-type seminars as an information source

for new businesses in Arizona. The CD will lead taxpayers through the process of filling out TPT-1's and other tax forms. In addition to the instructions, the CD will do the calculations of tax due to reduce mathematical errors, has built in tables that will allow it to be updated from the Internet, and allows taxpayers/practitioners to keep completed returns on the hard drive of their computers for reference. The CD is scheduled to be released in October.

**\*\*\* REMINDER \*\*\***

**FOR NON-EFT TPT FILERS**

**To avoid a delinquency, postmark your  
October 2001 TPT return no later than  
November 26, 2001 or deliver to DOR no  
later than November 29, 2001.**

**Don't Forget...**

Renew your subscription to the Arizona  
TaxNews at least 30 days before expiration to  
avoid missing issues.

**July Summary of  
General Fund Revenues**

	July 2001
<b>Individual Income Tax</b>	
Net Collections	\$145,760,135
Percent Change *	0.3%
<b>Corporate Income Tax</b>	
Net Collections	\$12,321,809
Percent Change *	(48.0%)
<b>Transaction Privilege, Severance &amp; Use Taxes</b>	
Net Collections	\$259,323,492
Percent Change *	(0.7%)
<b>Total Big Three Tax Types</b>	
Net Collections	\$417,405,436
Percent Change *	(2.9%)

( ) Decrease from same month last year.

\* Percent change from same month last year.

**Individual Income Tax  
Individual Income Tax Receipts**

	July 01	July 00	%Change
Gross Collections	\$9,734,259	\$9,569,607	1.7
Withholding	188,982,846	184,083,015	2.7
Refunds	(17,800,590)	(15,309,995)	16.3
Urban Rev Sharing	(35,156,381)	(33,037,720)	6.4%
<b>Net Collections</b>	<b>\$145,760,135</b>	<b>\$145,304,906</b>	<b>0.3</b>

**TAX CALENDAR**

NOVEMBER 2001

Due Date		For Period Ending
12	State Holiday - Veteran's Day,	All State Offices Closed
15	Income Tax Returns:	7/31/01
	Form 120: Corporation	
	Form 140: Individual	
	Form 141: Fiduciary	
	Form 165: Partnership	
15	Form 120: Corporation with Automatic Extension	1/31/01
15	Form 120S: S Corporation	8/31/01
15	Form 99: Exempt Organization Annual Information Return	6/30/00
	Form 99T: Exempt Organization	6/30/01
15	Form 120ES: Estimated Tax Payment, Corporation	
	First Installment	7/31/02
	Second Installment	5/31/02
	Third Installment	2/28/02
	Fourth Installment	11/30/01
20	Form TPT-1: Transaction Privilege Tax:	
	October Monthly Filers	10/31/01
20	Bingo: Financial Reports	10/31/01
20	Luxury Tax: Various Forms	10/31/01
22	State Holiday - Thanksgiving,	State Offices Closed
26	EFT Form TPT-1 and Payment:	
	Transaction Privilege Tax:	
	October Monthly Filers	10/31/01

**Withholding Information:**

If the average amount of Arizona income taxes withheld in the preceding four calendar quarters **exceeds** \$1,500 the employer must make its Arizona withholding payments to the Department of Revenue at the same time as the employer is required to make federal withholding deposits. If the average amount of Arizona income taxes withheld in the preceding four calendar quarters **does not exceed** \$1,500 the employer must make its Arizona withholding payments to the department on a quarterly basis.

The Arizona Tax News is a monthly publication of the Arizona Department of Revenue. Information contained herein is of a general nature and is not designed to address complex issues in detail. Taxpayers requiring information concerning a specific tax matter should contact the appropriate office. This newsletter is available in alternative formats upon request by calling the telephone number shown below. Subscription information may be obtained from: **Tony Manzo** at (602) 542-3062 or toll free (877) 863-0655.

# Notice of Administrative Relief Granted Due to the Terrorist Attacks of September 11, 2001

The Arizona Department of Revenue announces administrative relief for filing and payment obligations due to the devastating effects of the terrorist attacks of September 11, 2001. The Internal Revenue Service issued Notice 2001-61 last week describing disaster relief for the terrorist attacks on the World Trade Center, the Pentagon and the airplane crash in Pennsylvania.

Internal Revenue Service Notice 2001-61 describes who are affected taxpayers for purposes of administrative tax relief as: (1) those resident in or having their principle place of business in the affected counties (the five counties or boroughs of New York which together constitute the City of New York and the County of Arlington Virginia); (2) relief workers; (3) those whose records that are necessary to meet a tax obligation are maintained in the affected counties; (4) spouses of affected taxpayers; (5) victims of the plane crashes; and (6) taxpayers whose place of employment is located with the affected counties.

Any taxpayer who qualifies as an affected taxpayer as set forth in Notice 2001-61 are entitled to the following administrative relief for the Arizona tax filing and payment obligations:

*For all affected taxpayers having an obligation to file a return or make a payment or deposit under Titles 42 or Title 43 of the Arizona Revised Statutes during the period from September 11, 2001 through October 31, 2001, the Department of Revenue will waive or abate penalties if the filing, payment or deposit is made on or before November 15, 2001. In addition, taxpayers who do not qualify as affected taxpayers but who have difficulty in meeting their federal tax obligations because of disruption in the transportation and delivery of documents by mail or private delivery services resulting from the terrorist attacks are also entitled to this relief. This relief covers income taxes, transaction privilege and use taxes (sales*

*tax), estate taxes, luxury taxes, withholding taxes and estimated payments.*

*Additional relief is granted to individuals required to make individual income tax estimated payments due on or after September 11, 2001 and before January 15, 2002. The due date for these estimated payments is postponed until January 15, 2002.*

*Additional relief is granted to individuals and corporations who have extensions or are granted extensions to file their federal income tax return to a date sometime beyond September 10, 2001. The due dates of the returns is extended to the extension dates granted by the Internal Revenue Service in Notice 2001-61 (February 12, 2002 for individuals who timely paid 90% of their tax obligations). This extension will result in a waiver or abatement of penalties for the extension period.*

The Arizona Department of Revenue announces additional administrative relief to all individuals with individual income tax estimated payment obligations for the period of September 11 through September 23, 2001. Due to the continuing disruption to the nation's financial markets, transportation system and telecommunication and computer networks, and continuing security concerns which have made it difficult for many taxpayers and their representatives to meet their filing, payment and deposit obligations, the Internal Revenue Service issued Notice 2001-63 which extends payments due during this period until September 24, 2001. Arizona individual estimated payments are similarly extended for all taxpayers, regardless of whether they are considered affected taxpayers.

Arizona will also recognize extensions for filing where Notice 2001-63 extended the federal filing date to September 24, 2001. To apply for the relief set forth above taxpayers should write, in red, "September 11, 2001 Terrorist Attacks" on the top of the first page of returns and correspondence.

# Arizona Individual Income Tax Ruling

## ITR 01-2

(Rescinds and Supersedes Arizona Individual Income Tax Ruling ITR 94-7)

### **ISSUES:**

1. Does the department grant automatic filing extensions?
2. What effect does a filing extension have on the statute of limitations?

### **APPLICABLE LAW:**

Arizona Revised Statutes (A.R.S.) § 42-1104 sets forth the time period within which a notice of additional tax due must be mailed. A.R.S. § 42-1106 sets forth the period within which a claim for credit or refund may be filed. A.R.S. § 42-1107 authorizes the department to grant an extension of time for filing an income tax return when certain requirements are met. Arizona Administrative Code (A.A.C.) R15-2A-103 provides that the due date for a return is the date on or before which a return is required to be filed or on the last day of the period covered by an extension of time granted by the department.

### **DISCUSSION:**

A.R.S. § 42-1107 authorizes the department to grant extensions for the filing of income tax returns.

If the taxpayer is granted an extension or extensions of time within which to file the federal income tax return for any taxable year, the taxpayer is automatically deemed to have been granted the same extension of time for filing the Arizona income tax return if at least 90 percent of the tax liability disclosed by the taxpayer's return for the reporting period is paid on or before the original due date.

Alternatively, the taxpayer may file an application for an Arizona extension on or before the due date of the return. Upon receipt of a properly completed application, the department will grant an automatic four month extension for individual and fiduciary income tax returns provided:

1. The application is prepared on Form 204 (Application for Extension of Time to File Arizona Individual and

Fiduciary Income Tax Returns). The form must be signed by the taxpayer or other person authorized by the taxpayer to request such an extension.

2. The application is filed on or before the date prescribed for the filing of the return.

3. The application indicates the full amounts properly estimated as tax liability for such taxable year.

4. A copy of the extension application is attached to the taxpayer's Arizona return.

An additional extension, not exceeding two months, may also be granted to an individual or fiduciary taxpayer upon showing of good cause. The additional two-month extension must be applied for on Form 204. The department will notify the taxpayer if this additional extension is denied.

If the taxpayer does not pay at least 90 percent of the tax liability disclosed by the taxpayer's return on or before the original due date of the return, the taxpayer is subject to the extension underpayment penalty. A.R.S. § 42-1107 provides that, if a taxpayer filing with an extension does not pay 90 percent of the tax liability by the original due date, the taxpayer is subject to a penalty of one-half of one percent of the tax not paid for each 30 day period.

When an extension has been granted, the return is due on or before the last day of the period covered by the extension. In addition, since the date on which the return is required to be filed is extended, the period in which an assessment may be made or a refund may be claimed is also extended. This period of limitation begins at the expiration of the

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extension period or the date the return is filed, whichever is later.

If both the income tax extension and the return are filed prior to the original due date of the return, the extension shall be deemed not granted and has no effect on the statute of limitations.

The following examples illustrate the effect of extensions on the statute of limitations:

**Example 1:**

An individual taxpayer applies on April 5 for an automatic four month extension of time to file the return due April 15. Taxpayer meets all of the criteria for filing pursuant to an extension and subsequently files the return on April 20. In this case, the extension is deemed to be granted by the department. Therefore, the statute of limitations for claiming a refund or assessment of additional tax begins on the extended due date, August 15.

**Example 2:**

An individual taxpayer applies on April 5 for an automatic four month extension of time to file the return due April 15. Taxpayer subsequently files the return prior to its original due date, on April 13. In this case, the timely filing of the return negates the extension. Therefore, the statute of limitations for claiming a refund or an assessment of an additional tax begins on the original due date

of April 15.

**Example 3:**

An individual taxpayer applies on April 5 for an automatic four month extension of time to file the return due April 15. Taxpayer subsequently files the return on August 20. In this case, the statute of limitations for claiming a refund or assessment of additional tax begins on the date the return was filed (August 20) since the date the return is filed is later than the extended due date.

**RULING:**

The department will grant an automatic filing extension of four months for individual and fiduciary income tax returns when properly applied for by the taxpayer. Alternatively, the department will accept a federal extension for the period covered by the federal extension. When an extension has been granted, the period of limitations for claiming refunds or for assessment of additional tax begins at the expiration of the extension period or the date the return is filed, whichever is later. If both the income tax extension and the return are filed prior to the original due date of the return, the extension shall be deemed not granted and has no effect on the statute of limitations.

Mark W. Killian, Director

Signed: October 1, 2001

## **Arizona Corporate Income Tax Ruling CTR 01-3**

(Rescinds and Supersedes Arizona Corporate Income Tax Ruling CTR 94-8)

**ISSUES:**

1. Does the department grant automatic filing extensions?
2. What effect does a filing extension have on the statute of limitations?

**APPLICABLE LAW:**

Arizona Revised Statutes (A.R.S.) § 42-1104 sets forth the time period within which a notice of additional tax due must be mailed.

A.R.S. § 42-1106 sets forth the period

within which a claim for credit or refund may be filed.

A.R.S. § 42-1107 authorizes the department to grant an extension of time for filing an income tax return when certain requirements are met. Arizona Administrative Code (A.A.C.) R15-2A-103 provides that the due date for a return is the date on or before which a return is required to be filed or on the last day of the period covered by an extension of time granted by the department.

**DISCUSSION:**

A.R.S. § 42-1107 authorizes the department to grant extensions for the filing of income tax

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returns.

If the taxpayer is granted an extension or extensions of time within which to file the federal income tax return for any taxable year, the taxpayer is automatically deemed to have been granted the same extension of time for filing the Arizona income tax return if at least 90 percent of the tax liability disclosed by the taxpayer's return for the reporting period is paid on or before the original due date. This extension of time is considered to be the number of months the filing date is extended and not the extended due date. *For example: a six month federal extension for a corporate taxpayer that extends a March 15 due date to September 5 would extend that taxpayer's Arizona due date from April 15 to October 15.*

Alternatively, the taxpayer may file an application for an Arizona extension on or before the due date of the return. Upon receipt of a properly completed application, the department will grant an automatic six month extension for corporate income tax returns provided:

1. The application is prepared on Form 120EXT (Application for Extension of Time to File Arizona Corporate Income Tax Return). The form must be signed by a person authorized by the taxpayer to request such an extension.
2. The application is filed on or before the date prescribed for the filing of the return.
3. The application indicates the full amounts properly estimated as tax liability for such taxable year.
4. A copy of the extension application is attached to the taxpayer's Arizona return.

If the taxpayer does not pay at least 90 percent of the tax liability disclosed by the

taxpayer's return on or before the original due date of the return, the taxpayer is subject to the extension underpayment penalty. A.R.S. § 42-1107 provides that, if a taxpayer filing with an extension does not pay 90 percent of the tax liability by the original due date, the taxpayer is subject to a penalty of one-half of one percent of the tax not paid for each 30 day period.

When an extension has been granted, the return is due on or before the last day of the period covered by the extension. In addition, since the date on which the return is required to be filed is extended, the period in which an assessment may be made or a refund may be claimed is also extended. This period of limitation begins at the expiration of the extension period or the date the return is filed, whichever is later.

If both the income tax extension and the return are filed prior to the original due date of the return, the extension shall be deemed not granted and has no effect on the statute of limitations. The following examples illustrate the effect of extensions on the statute of limitations:

**Example 1:**

A corporate taxpayer applies on April 5 for an automatic six month extension of time to file the return due April 15. Taxpayer meets all of the criteria for filing pursuant to an extension and subsequently files the return on April 20. In this case, the extension is deemed to be granted by the department. Therefore, the statute of limitations for claiming a refund or assessment of additional tax begins on the extended due date, October 15.

**Example 2:**

A corporate taxpayer applies on April 5 for an automatic six month extension of time to file the return due April 15. Taxpayer subsequently files the return prior to its original due date, on April 13. In this case, the timely filing of the return negates the extension. Therefore, the statute of limitations for claiming a refund or an assessment of an additional tax begins on the original due date of April 15.

**Example 3:**

A corporate taxpayer applies on April 5 for an automatic six month extension of time to file the return due April 15. Taxpayer subsequently files the return on October 20. In this case, the statute

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## **Change in Winkelman Town Tax Code Effective December 1, 2001**

The Mayor and Town Council of the Town of Winkelman passed ordinance 107-2001. Ordinance 107-2001 increases the Winkelman Town Privilege Tax from 2.5% to 3.5%. The tax rate increase affects the following classifications:

- ◆ Advertising
- ◆ Amusements
- ◆ Construction contracting
- ◆ Job printing
- ◆ Manufactured buildings
- ◆ Timbering & other extraction
- ◆ Publishing

- ◆ Hotels
- ◆ Rental of real property
- ◆ Restaurants and Bars
- ◆ Retail sales
- ◆ Telecommunications
- ◆ Transporting for hire

This increase imposed by this ordinance shall not apply to contracts entered into prior to the effective date of the ordinance. Pre-existing contracts should be reported using CODE WM8 at a rate of 2.5%.

## **Huachuca Change in Town Tax Code Effective December 1, 2001**

The Mayor and Town Council of the Town of Huachuca passed ordinance 01-014. Ordinance 01-014 increases the Huachuca Town Privilege Tax from 1% to 1.5%. The tax rate increase affects the following classifications:

- ◆ Advertising
- ◆ Amusements
- ◆ Construction contracting
- ◆ Feed at Wholesale
- ◆ Job printing
- ◆ Manufactured buildings
- ◆ Timbering & other extraction

- ◆ Publishing
- ◆ Rental Occupancy
- ◆ Hotels
- ◆ Rental of real property
- ◆ Restaurants and Bars
- ◆ Retail sales
- ◆ Telecommunications
- ◆ Transporting for hire and Utilities

This increase imposed by this ordinance shall not apply to contracts entered into prior to the effective date of the ordinance. Pre-existing contracts should be reported using CODE HC9 at a rate of 1%.

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of limitations for claiming a refund or assessment of additional tax begins on the date the return was filed (October 20) since the date the return is filed is later than the extended due date.

### **RULING:**

The department will grant an automatic filing extension of six months for corporate income tax returns when properly applied for by the taxpayer. Alternatively, the department will accept a federal extension for the period covered by the federal extension.

When an extension has been granted, the period of limitations for claiming refunds or for assessment of additional tax begins at the expiration of the extension period or the date the return is filed, whichever is later. If both the income tax extension and the return are filed prior to the original due date of the return, the extension shall be deemed not granted and has no effect on the statute of limitations.

Mark W. Killian, Director  
Signed: October 1, 2001